

**Budget Issues Are Delaying the Expanded
Use of Predictive Dialer Systems for
Contacting Delinquent Taxpayers**

June 2003

Reference Number: 2003-30-132

This report has cleared the Treasury Inspector General for Tax Administration disclosure review process and information determined to be restricted from public release has been redacted from this document.



DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

INSPECTOR GENERAL
for TAX
ADMINISTRATION

June 25, 2003

MEMORANDUM FOR COMMISSIONER, SMALL BUSINESS/SELF-EMPLOYED
DIVISION
COMMISSIONER, WAGE AND INVESTMENT DIVISION

Gordon C. Milbourn III

FROM: Gordon C. Milbourn III
Assistant Inspector General for Audit (Small Business and
Corporate Programs)

SUBJECT: Final Audit Report - Budget Issues Are Delaying the Expanded
Use of Predictive Dialer Systems for Contacting Delinquent
Taxpayers (Audit # 200230036)

This report presents the results of our review of the predictive dialer¹ technology used within the Automated Collection System (ACS).² The overall objective was to determine whether the predictive dialer technology is being effectively used to increase outbound calls and, in turn, increase the disposition of Taxpayer Delinquent Accounts (TDA)³ and Taxpayer Delinquency Investigations (TDI).⁴ The effectiveness and efficiency of the ACS operation are critical for the Internal Revenue Service's (IRS) overall filing and payment compliance results, as well as taxpayer attitudes toward tax compliance, because of the large number of taxpayer accounts that it addresses each year. During

¹ A predictive dialer is a telephone control system that automatically calls a list of telephone numbers in sequence and screens out no-answers, busy signals, answering machines, and disconnected numbers while predicting at what point a Customer Service Representative (CSR) will be able to handle the next call. Predictive dialers are commonly used for telemarketing, surveys, appointment confirmation, payment collection, and service follow-ups.

² The ACS is a computerized inventory system that maintains certain balance due accounts and return delinquency investigations. The ACS generally receives the accounts and investigations after taxpayers have failed to comply with several notices for past due taxes or unfiled tax returns. The CSRs assigned to the ACS initiate and respond to telephone and correspondence contacts with these taxpayers in an attempt to collect the unpaid taxes and secure the unfiled tax returns.

³ A TDA involves unpaid taxes on a return that has been filed.

⁴ A TDI involves an unfiled tax return.

Fiscal Year (FY) 2002,⁵ the ACS received about 3.6 million TDAs, totaling more than \$15 billion, and approximately 870,000 TDIs. During the same year, the ACS collected \$1.25 billion.

In summary, since its inception in the 1980's, the ACS has evolved from an outbound-call operation to a primarily incoming-call operation. In FY 2002, 66 percent of the direct time⁶ ACS resources were expended on handling incoming calls, 30 percent on working inventory, and only 4 percent on making outbound calls. The IRS places a priority on answering incoming ACS calls because it has a corporate objective to provide a high level of customer service to those taxpayers who call the ACS that may be willing to resolve their delinquent accounts. While answering incoming calls is critical for timely account resolution and effective customer service, an imbalanced emphasis on incoming calls increases the risk of working lower-priority cases with little collection potential or handling accounts that are not even in the ACS' open inventory.

IRS management recognizes the need to make the ACS more proactive and, at the same time, more effective and efficient. At least two internal IRS study groups⁷ have recommended making more outbound calls. The IRS currently uses a predictive dialer system, located at one of its ACS call sites, for making outbound calls to delinquent taxpayers. However, the capability of the current predictive dialer is affected by insufficient capacity, staffing limitations, and frequent equipment downtime.

Furthermore, even if the IRS' current predictive dialer system was operated at full capacity, it could not keep pace with the increasing ACS functional inventories. Since the current predictive dialer system cannot be upgraded, ACS management has been developing plans to replace it with a new system. However, the IRS' current FY 2003 budget does not include the necessary funding to procure the predictive dialer system that is needed. The IRS is presently considering other options for obtaining a replacement dialer in FY 2003, such as a smaller system.

We recommended that the Compliance Directors in the SB/SE and W&I Divisions pursue additional human capital or reallocate compliance resources to allow for the operation of the IRS' present and future predictive dialer systems at full capacity. We also recommended that the Compliance Directors pursue a budget solution that would allow the IRS to replace the current predictive dialer with a state-of-the-art system with sufficient capacity, rather than settle for a smaller system that will not meet the long-term needs of the ACS. These actions should enable the IRS to expand its outbound call program to its optimum level and increase the overall effectiveness of the ACS operation.

Management's Response: The Commissioner, SB/SE Division, agreed with our findings and recommendations. In March 2003, funds were allocated from the FY 2003 budget for a piece-for-piece replacement of the current predictive dialer.

⁵ The FY 2002 ACS data include that from both the Small Business/Self-Employed (SB/SE) and Wage and Investment (W&I) Divisions.

⁶ Direct time is the time spent on activities related to taxpayer contact or casework.

⁷ The Customer Contact Center Optimization Project and the ACS Operating Model study.

Resources have been included in the FY 2005 budget request to enable the IRS to add more seat licenses for the replacement predictive dialer, purchase a second predictive dialer for another ACS site, and pursue the use of predictive dialer technology for two other compliance programs in which the IRS prepares substitute returns for nonfilers. Management's complete response to the draft report is included as Appendix IV.

Copies of this report are also being sent to the IRS managers who are affected by the report recommendations. Please contact me at (202) 622-6510 if you have questions or Richard J. Dagliolo, Director (Submission Processing), at (631) 654-6028.

**Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems
for Contacting Delinquent Taxpayers**

Table of Contents

Background	Page 1
The Automated Collection System Has Evolved Into an Incoming Call Operation	Page 2
Various Internal Studies Have Recommended Making More Outbound Calls	Page 5
The Predictive Dialer's Ability to Keep Pace With the Increasing Workload Is Diminished by Insufficient Capacity, Staffing Limitations, and Frequent Downtime	Page 6
<u>Recommendations 1 and 2:</u>	Page 11
Appendix I – Detailed Objective, Scope, and Methodology	Page 13
Appendix II – Major Contributors to This Report.....	Page 15
Appendix III – Report Distribution List	Page 16
Appendix IV – Management's Response to the Draft Report	Page 17

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

Background

The Internal Revenue Service's (IRS) process for securing overdue tax returns and collecting unpaid taxes begins with computer-generated notices sent to the taxpayers. If the taxpayers do not respond to the notices or make satisfactory filing or payment arrangements, their accounts are assigned to the Automated Collection System (ACS).¹

The ACS is a computer system that is designed to select the next taxpayer account to be worked, according to predetermined risk and priority categories, and to assign the case to a CSR located at 1 of the IRS' 16 ACS sites. The ACS functions through four related work processes: correspondence, outgoing and incoming telephone calls, and civil enforcement actions (e.g., the filing of a Notice of Levy² and/or a Notice of Federal Tax Lien³). Accounts that are not resolved by the ACS are eventually assigned to the Queue⁴ or transferred to IRS field offices for face-to-face taxpayer contact by revenue officers.

The IRS uses a predictive dialer system, located at its Buffalo, New York, ACS site, for making outbound calls to delinquent taxpayers. A predictive dialer automatically makes the outbound calls on a predetermined inventory of accounts without an attending CSR on the originating telephone line. The system retrieves the taxpayer's

¹ The ACS is a computerized inventory system that maintains certain balance due accounts and return delinquency investigations. The ACS generally receives the accounts and investigations after taxpayers have failed to comply with several notices for past due taxes or unfiled tax returns. The Customer Service Representatives (CSR) assigned to the ACS initiate and respond to telephone and correspondence contacts with these taxpayers in an attempt to collect the unpaid taxes and secure the unfiled tax returns.

² A Notice of Levy is used to take a taxpayer's property, held by someone else, if it can be turned over by writing a check (e.g., a taxpayer's bank account, wages, commissions, retirement benefits, or money received as a contractor).

³ Federal Tax Liens are filed against real or personal property owned by the taxpayer to protect the Federal Government's right of priority in the taxpayer's property. The lien remains in effect until the tax liability is satisfied or the statute of limitations expires.

⁴ The Queue is an automated holding file for lower-priority cases. A case is held in an inactive status until a change in the circumstances of the case causes it to be reassigned to the ACS or assigned to a revenue officer.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

telephone number from the ACS database files, dials the number, and, when a “live” contact is detected, automatically transfers the call to an available CSR at the Buffalo site. If there is no answer or if a busy signal is reached, the dialer records that information and reschedules the call. The predictive dialer is intended to increase ACS productivity by more efficiently using the CSRs’ time (e.g., removing the need to dial telephone numbers and eliminating the time spent waiting for taxpayers to answer), thereby allowing for more contacts during a work shift.

The effectiveness and efficiency of the ACS operation are critical for the IRS’ overall filing and payment compliance results, as well as taxpayer attitudes toward tax compliance, because of the large number of taxpayer accounts that it addresses each year. During Fiscal Year (FY) 2002⁵ for example, the ACS received about 3.6 million Taxpayer Delinquent Accounts (TDA),⁶ totaling more than \$15 billion, and approximately 870,000 Taxpayer Delinquency Investigations (TDI).⁷ During the same year, the ACS collected \$1.25 billion.

This review was performed from September 2002 through March 2003 by interviewing IRS management officials and reviewing relevant documentation at the IRS headquarters office in New Carrollton, Maryland, and at the ACS site in Buffalo, New York. The audit was performed in accordance with *Government Auditing Standards*. Data used in this report came from various IRS reports. We did not verify the accuracy of the information from those sources. Detailed information on our audit objective, scope, and methodology is presented in Appendix I. Major contributors to the report are listed in Appendix II.

The Automated Collection System Has Evolved Into an Incoming Call Operation

The ACS was originally established in the 1980’s to serve as an aggressive outbound call program aimed at making early attempts to contact taxpayers with accounts needing some sort of resolution. Over time, however, outbound calls

⁵ The FY 2002 ACS data include that from both the Small Business/Self-Employed (SB/SE) and Wage and Investment (W&I) Divisions.

⁶ A TDA involves unpaid taxes on a return that has been filed.

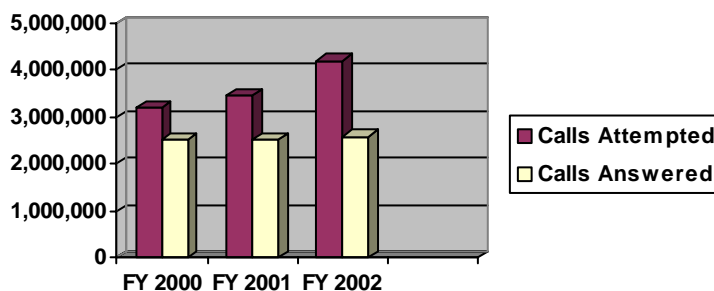
⁷ A TDI involves an unfiled tax return.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

decreased and incoming calls steadily increased as a percentage of the total calls. This increased incoming call demand, coupled with IRS resource constraints, caused the ACS to evolve from a proactive to a reactive operation, created an unbalanced ACS workload, and caused case inventories to expand and age unchecked.

Figure 1 illustrates that the volume of incoming calls (i.e., calls taxpayers attempted to make to the ACS) increased by more than 30 percent between FYs 2000 and 2002, while the number of calls answered was approximately the same.

Figure 1. ACS Incoming Call Volumes



Source: IRS Snapshot Reports, Product Line Detail for ACS.

The IRS must distribute its resources among the ACS work processes in a fixed-resource environment. The IRS prioritizes answering incoming ACS calls over working inventory⁸ or making outbound calls because it has a corporate objective to provide taxpayers with an 80 percent CSR Level of Service.⁹ As a result, the majority of the CSR resources are devoted primarily to handling incoming calls. Most of the time not spent answering incoming calls is allocated to working on the inventory.

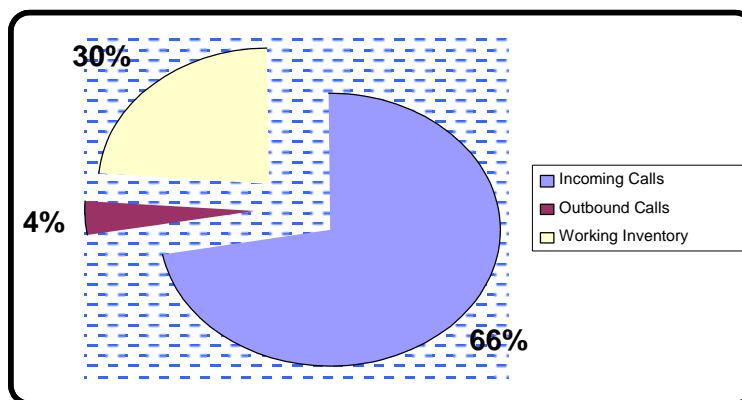
⁸ “Working inventory” refers to casework activities such as handling correspondence, taking levy actions, and filing or releasing liens.

⁹ The CSR Level of Service is the IRS’ measure for providing taxpayers with access to a live assistor. It is based on the percentage of incoming callers who reach a CSR after choosing that menu option. The measure omits those calls where the caller abandons (i.e., disconnects) the call before choosing to speak to an assistor.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

As shown in Figure 2, only 4 percent of the direct time¹⁰ ACS resources were devoted to outbound calls in FY 2002.

Figure 2. Allocation of ACS Resources – FY 2002



Source: Treasury Inspector General for Tax Administration analysis of IRS data.

Providing taxpayers with access to the ACS is critical for timely account resolution and effective customer service. Answering incoming calls may mean that CSRs are actively working with those taxpayers who may be willing to resolve their delinquent accounts. However, the downside to expending such a large share of the ACS resources on answering incoming calls is that the CSRs may not be working the most productive cases. An incoming call may involve a lower priority case and/or may involve a case with little collection potential. For example, an internal IRS study¹¹ found that an estimated 18 to 22 percent of the incoming ACS calls that were answered by CSRs involved cases that were not currently open on the ACS inventory.

IRS management stated that several factors must be considered in determining whether the ACS could be making more outgoing calls versus taking incoming calls. On outgoing calls, for example, CSRs leave messages with taxpayers requesting callbacks by the close of the next business day. The CSRs must be available to receive those

¹⁰ Direct time is the time spent on activities related to taxpayer contact or casework.

¹¹ Internal IRS study of a sample of incoming calls received between February and September 2002.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

Various Internal Studies Have Recommended Making More Outbound Calls

callbacks. In addition, the IRS implemented the Federal Payment Levy Program in July 2000 that involves collecting overdue taxes through continuous levies on certain federal payments. Many of the taxpayers affected by this Program do not have open accounts in the ACS, yet the ACS is responsible for handling any incoming calls related to this program. The IRS is also required by law to issue annual reminder notices to taxpayers who have balance due accounts. Many of these notices provide the ACS phone number for the taxpayers to call if they have questions. The ACS must have CSRs available to handle these inquiries even though the accounts may not be open in the ACS inventory.

The IRS has no management information systems that provide empirical data to determine whether ACS case dispositions result from incoming calls, outbound calls, or inventory work. As a result, ACS management cannot reliably ensure that resources are allocated to the ACS work processes (i.e., receiving incoming calls, making outbound calls, and working inventory) in a way that provides the optimum balance of customer satisfaction, tax revenue, and return on investment.

Nevertheless, IRS management recognizes the need to expand the use of outbound calls to make the ACS operation more proactive and, at the same time, more effective and efficient. At least two recent internal IRS study groups have recommended making more outbound calls:

- In 2001, the Customer Contact Center Optimization (CCCO) Project¹² estimated that the SB/SE Division's ACS sites could achieve minimum effort equilibrium¹³ in 1.5 years by committing

¹² The former IRS Commissioner launched the CCCO Project in July 2000 to improve the quality of non-face-to-face communications between the IRS and its customers through the specialization of the workload.

¹³ Minimum effort equilibrium is the point at which all backlogged inventory has cleared the predictive dialer with the system working just new eligible ACS receipts.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

100 Full-Time Equivalents (FTE)¹⁴ to the outbound call program. Similarly, the study team estimated that the W&I Division's ACS sites could achieve minimum effort equilibrium in 1.8 years by committing 110 FTEs to the outbound call program.

- In 2002, the ACS Operating Model study¹⁵ found that the ACS initiates 70 percent of its incoming telephone calls by sending letters and concluded that, under the current procedures, the ACS has the capacity to work only 66 percent of its new receipts. The study team recommended reducing the number of incoming calls by attempting to resolve cases by first contacting taxpayers by telephone and then sending letters if the outbound calls were unsuccessful.

The IRS has also identified the need to make outbound calls for other compliance programs, such as the Automated Substitute for Returns (ASFR) Program,¹⁶ that traditionally have used correspondence to communicate with taxpayers. For example, a test using outbound calls to contact taxpayers during the last half of FY 1998 found that the ASFR Program achieved a 33 percent increase in the number of tax returns that were subsequently filed.

Predictive dialing technology is used for debt collections by government agencies and private businesses. The use of predictive dialers increases productivity in call centers since agents spend more time talking to customers rather than manually dialing telephone numbers, waiting for the calls to go through, or hanging up on busy signals and answering

The Predictive Dialer's Ability to Keep Pace With the Increasing Workload Is Diminished by Insufficient Capacity, Staffing Limitations, and Frequent Downtime

¹⁴ An FTE is a measure of labor hours. One FTE is equal to 8 hours multiplied by the number of compensable days in a particular fiscal year.

¹⁵ The ACS Operating Model team was chartered by the SB/SE Division to clearly define the priorities of the ACS and identify the best approach for optimizing performance.

¹⁶ The ASFR Program is a compliance program for taxpayers who have not filed individual income tax returns but owe significant income tax liabilities. It assesses the tax liability based on payor information reported to the IRS and other internally available information.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

machines. The best predictive dialers that are available today are superior to their counterparts of the past.

The IRS has been using a predictive dialer since 1996

Using predictive dialer technology to augment the ACS outcall program was originally recommended in an internal IRS study that was completed in 1993. The IRS began testing a predictive dialer at its ACS call site in Buffalo, New York, in 1996. The IRS' evaluation showed that the predictive dialer had the effect of increasing outgoing call productivity and decreasing inventory in the ACS Contact function.¹⁷ In June 1999, the Buffalo site began supporting the outgoing call "campaigns"¹⁸ from other ACS call sites. This consolidation was completed in January 2000 and a weekly rotational schedule was implemented in February 2000 that provided for outbound calls to be made for each of the 16 ACS sites. In October 2000, the IRS underwent a major reorganization and the predictive dialer is now used to support outbound calls on ACS cases from both the SB/SE and W&I Divisions.

The current predictive dialer operation is limited by capacity and staffing issues

The IRS still uses its original predictive dialer system, located in the Buffalo ACS site, for making outbound calls on its most current TDA and TDI receipts and for making outbound calls as a last attempt to contact taxpayers prior to issuing a Notice of Levy. The IRS has 69 user licenses (i.e., potential workstations) for its predictive dialer system, which is operated over 2 work shifts. For FY 2002, the IRS allocated 118 (4.4 percent) of its 2,696 ACS FTEs to the predictive dialer operation. This allocation of 118 FTEs represented both direct time (61.4 FTEs) and overhead¹⁹ (56.6 FTEs) for approximately 45 to 50 employees per shift.

¹⁷ The Contact function in the ACS handles taxpayer telephone calls.

¹⁸ A "campaign" is a small, manageable workload group (usually 500 to 1,000 taxpayer accounts) and is used to prioritize the work (e.g., by dollar value, age of case, type of tax, etc.).

¹⁹ Overhead is time expended on leave, holidays, training, and administrative tasks that are a part of normal operations but do not contribute directly to productive work.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

During FY 2002, 57.2 FTEs of direct time were actually expended on the predictive dialer operation.

During FY 2002, the ACS used the predictive dialer to make 1.3 million outbound call attempts on 1.2 million taxpayer accounts. Contact was successfully achieved with 259,000 taxpayers and 133,000 third parties. The estimated outbound contact rate was 4,500 per FTE. Also, the predictive dialer improved ACS efficiency by saving the CSRs' time on 932,000 calls for which successful contacts were not realized (e.g., busy signals or no answers).

By comparison, 4.2 million incoming call attempts were made to the ACS in FY 2002. The CSRs answered 2.5 million of those calls to provide a 68.2 percent CSR level of service. The estimated contact rate was 2,700 incoming calls answered per FTE.

The current predictive dialer system experiences frequent downtime

The IRS' current predictive dialer system is outdated, is no longer supported by the vendor, and does not have a backup system to sustain the operations if the primary system goes down. On February 26, 2003, we were advised that the predictive dialer had experienced downtime during 23 of the prior 37 workdays.

Expanding predictive dialer capabilities has been delayed by budgetary constraints

The limitations associated with the IRS' current predictive dialer are precluding the IRS from expanding the outbound call program. Internal studies by the IRS have shown that, even at full capacity, the current predictive dialer system cannot keep pace with the increasing ACS inventories. Since the current predictive dialer system cannot be upgraded, ACS management has been developing plans to replace it with a new system that can increase the capacity for assisting other business units and route the calls among the ACS sites.

For example, if the new predictive dialer can send calls to other sites, managers from the SB/SE Division plan to route their outbound calls to CSRs located at an SB/SE Division

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

ACS site. The SB/SE Division's ACS function will then be able to increase its outgoing calls since it will be able to use more predictive dialer capacity than its current 40 percent²⁰ allocation.

In addition, ACS managers from the W&I Division believe that a new predictive dialer could provide them with the equipment and software to make better ACS program assessments. For example, they would like to systemically obtain specific information about the effectiveness of outgoing calls since, with the current predictive dialer, such an evaluation requires an ad hoc study. A new predictive dialer could automate the gathering of information for monitoring purposes.

In recent years, however, IRS decisions to expand the use of predictive dialers in the ACS have been delayed for a variety of reasons. On February 26, 2003, we were advised that the IRS' plans to replace its predictive dialer may again be delayed due to inadequate funding in the FY 2003 budget. This budget shortfall was attributed to a provision in the Omnibus Consolidated Appropriation Act for 2003,²¹ which provides funding for the Federal Government through September 30, 2003. The Act requires each agency to fund 1 percent of the annual pay increase for its employees.

While the IRS is still committed to pursuing new predictive dialers for its ACS sites in Buffalo and Detroit, Michigan, as well as for its ASFR and other compliance programs, we were advised that the priorities are going to have to be shifted somewhat because of the budget and because the lifespan of the current predictive dialer was going to be shorter than originally anticipated. We were advised that, for the Buffalo site, a replacement predictive dialer that has up to 200 site licenses would cost around \$2 million. However, this system would not have the capability to route calls to other sites because the telecommunication costs to do so would be slightly under \$1 million. We were also

²⁰ An informal agreement between the divisions allocates 60 percent of the predictive dialer's capacity to outbound calls on W&I Division accounts and 40 percent to outbound calls on SB/SE Division accounts.

²¹ H. J. Res 2; Pub. L. No. 108-7.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

advised that, to attempt to get a replacement predictive dialer for Buffalo in FY 2003, the IRS was going to recalculate the cost for a smaller predictive dialer system (i.e., about 75-100 site licenses) in the hopes of dropping the costs to a level where the Business Operating Divisions might agree to postpone 1 or 2 smaller, yet already funded, projects.

While just purchasing a replacement dialer for Buffalo leaves the IRS in the same operating position that it is in now (i.e., the 60/40 percent split between the W&I and SB/SE Divisions), we were advised that this position is much more desirable than not having a predictive dialer at all. We were also advised that the IRS would continue to pursue a separate dialer purchase for the Detroit ACS call site in FYs 2004 or 2005, if the budgets permit. The official also advised that it would be more economical in the long run to buy a separate predictive dialer system for the Detroit ACS site than to pay the telecommunications costs to send calls to Detroit from the Buffalo ACS site.

Some members of the ACS Operating Model study that we spoke with estimated that a new predictive dialer, if purchased at a cost of \$3 million, would likely pay for itself in less than 1 year in operational efficiencies alone. This estimate of a return on investment did not include any additional collections that could result from earlier contacts with taxpayers.

ACS management advised us that they believed the above estimate represented a cost avoidance since the ACS currently uses a predictive dialer, and not CSRs, to make outgoing calls. ACS management stated that, while the IRS will not be saving any money that can be applied to the purchase of a new predictive dialer, the purchase of a new dialer would allow the ACS to expand the current outgoing call program simply by avoiding the downtime associated with the current equipment.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

Recommendations

To ensure that the IRS can expand the outbound call program to its optimum level to increase the overall effectiveness of the ACS in supporting the IRS' strategic goals, the Compliance Directors in the SB/SE and W&I Divisions should:

1. Pursue additional human capital (i.e., FTEs) or reallocate compliance resources to allow for the operation of present and future predictive dialer systems at full capacity.

Management's Response: The Commissioner, SB/SE Division, advised that resources have been included in the FY 2005 budget request to enable the IRS to purchase a predictive dialer for the SB/SE Division's ACS site in Detroit and add more seat licenses to the replacement predictive dialer at the W&I Division's ACS site in Buffalo. The Detroit ACS site now has the authority to hire and expects to add 102 additional FTEs by the time its predictive dialer is installed in FY 2005. The ASFR and Automated 6020(b)²² Programs have already designated FTEs to work their respective predictive dialer cases.

2. Pursue a budget solution that would allow the IRS to replace the current predictive dialer system with a state-of-the-art system with sufficient capacity, rather than settle for a smaller predictive dialer system that will not be able to effectively meet the long-term needs of the ACS. Potential budget solutions could include leasing, rather than purchasing, a new predictive dialer system to reduce the initial outlay or developing a business case to support a supplemental budget request from the IRS to the Congress based on the potential

²² Internal Revenue Code § 6020(b) (2002) gives the IRS authority to prepare certain business returns and assess the tax liability if the taxpayer does not resolve the delinquency.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

cost/benefit of speeding the collection of tax revenues through increased outbound calls.

Management's Response: The Commissioner, SB/SE Division, advised that in March 2003, the Modernization, Information Technology and Security Services organization allocated \$1.9 million from the FY 2003 budget for a piece-for-piece replacement predictive dialer for the Buffalo ACS site. Because the technology of predictive dialers has improved since the purchase of the current dialer in 1996, the IRS will benefit from the flexibility the new software-driven dialers offer. The IRS is developing a business case for FYs 2004 and beyond that includes the purchase of additional seat licenses for the Buffalo ACS site and the purchase of predictive dialers for the Detroit ACS site and the ASFR and Automated 6020(b) Programs.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

Appendix I

Detailed Objective, Scope, and Methodology

Our audit objective was to determine whether predictive dialer¹ technology is being effectively used in the Automated Collection System (ACS)² to increase outbound telephone calls and, in turn, increase the disposition of Taxpayer Delinquent Accounts (TDA)³ and Taxpayer Delinquency Investigations (TDI).⁴ To accomplish our objective, we:

- I. Determined how Internal Revenue Service (IRS) management plans to use the predictive dialer technology to increase the overall effectiveness and efficiency of the ACS compliance programs.
 - A. Reviewed program plans, policies, procedures, and controls for the predictive dialer operation within the ACS.
 - B. Discussed treatment strategies with Small Business/Self-Employed (SB/SE) Division and Wage and Investment (W&I) Division personnel.
 - C. Reviewed IRS and contractor studies evaluating compliance activities and predictive dialer effectiveness to identify assumptions related to and reasonableness of those efforts.
 - D. Reviewed available case studies to determine whether the proposed strategies ensure the effective use of predictive dialer technology.
- II. Assessed the adequacy of IRS management's measurement system or process for ensuring that the current predictive dialer campaigns are achieving the intended program results or business goals.
 - A. Discussed monitoring systems with SB/SE and W&I Division personnel to ascertain the variables that are being tracked and the performance measures or other outcomes that indicate successful operations.

¹ A predictive dialer is a telephone control system that automatically calls a list of telephone numbers in sequence and screens out no-answers, busy signals, answering machines, and disconnected numbers while predicting at what point a Customer Service Representative (CSR) will be able to handle the next call. Predictive dialers are commonly used for telemarketing, surveys, appointment confirmation, payment collection, and service follow-ups.

² The ACS is a computerized inventory system that maintains certain balance due accounts and return delinquency investigations. The ACS generally receives the accounts and investigations after taxpayers have failed to comply with several notices for past due taxes or unfiled tax returns. The CSRs assigned to the ACS initiate and respond to telephone and correspondence contacts with these taxpayers in an attempt to collect the unpaid taxes and secure the unfiled tax returns.

³ A TDA involves unpaid taxes on a return that has been filed.

⁴ A TDI involves an unfiled tax return.

**Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems
for Contacting Delinquent Taxpayers**

- B. Discussed the linkage between predictive dialer operations, other ACS collection efforts, and business results to identify the methods used to verify effectiveness.
 - C. Discussed appropriate responses to indications of ineffective use of predictive dialer technology to identify possible corrective actions.
 - D. Consolidated the predictive dialer “answered results” data for Fiscal Year 2002 to identify the predictive dialer’s past effectiveness in moving cases toward resolution.
- III. Determined whether IRS management is effectively linking the needs of the ACS outbound call program with the capabilities of new predictive dialer systems.
- A. Discussed ACS outbound call needs with SB/SE and W&I Division personnel to determine how the capabilities of new predictive dialers meet those needs.
 - B. Reviewed the IRS’ Statement of Work for a replacement predictive dialer and subsequent vendor proposals to evaluate the equipment’s ability to provide relevant information on dialer activities.
 - C. Analyzed available data to evaluate whether matching ACS needs and proposed predictive dialer capabilities can ensure the effective use of predictive dialer technology.

**Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems
for Contacting Delinquent Taxpayers**

Appendix II

Major Contributors to This Report

Richard J. Dagliolo, Director
Philip Shropshire, Director
William E. Stewart, Audit Manager
Lawrence R. Smith, Senior Auditor
Marjorie A. Stephenson, Auditor

**Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems
for Contacting Delinquent Taxpayers**

Appendix III

Report Distribution List

Commissioner N:C

Deputy Commissioner for Services and Enforcement N:DC

Acting Deputy Commissioner, Small Business/Self-Employed Division S

Deputy Commissioner, Wage and Investment Division W

Director, Compliance, Small Business/Self-Employed Division S:C

Director, Compliance, Wage and Investment Division W:CP

Director, Filing and Payment Compliance, Wage and Investment Division W:CP:FPC

Director, Payment Compliance, Small Business/Self-Employed Division S:C:CP:P

Deputy Director, Compliance Policy, Small Business/Self-Employed Division S:C

Chief Counsel CC

National Taxpayer Advocate TA

Director, Legislative Affairs CL:LA

Director, Office of Program Evaluation and Risk Analysis N:ADC:R:O

Office of Management Controls N:CFO:AR:M

Audit Liaisons:

Commissioner, Small Business/Self-Employed Division S

Commissioner, Wage and Investment Division W

**Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems
for Contacting Delinquent Taxpayers**

Appendix IV

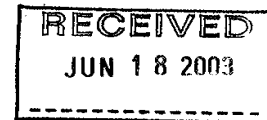
Management's Response to the Draft Report



COMMISSIONER
SMALL BUSINESS/Self-EMPLOYED DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

JUN 17 2003



MEMORANDUM FOR DEPUTY INSPECTOR GENERAL FOR AUDIT

FROM: Dale F. Hart *Dale F. Hart*
Commissioner, Small Business/Self-Employed Division

SUBJECT: Draft Audit Report – Budget Issues Are Delaying the
Expanded Use of Predictive Dialer Systems for
Contacting Delinquent Taxpayers (Audit # 200230036)

I have reviewed your report on the use of the predictive dialer in the Automated Collection System (ACS) environment and agree with your findings and recommendations.

We are always looking for ways to improve our compliance efforts. We realize that the predictive dialer is a useful and effective tool in managing and controlling our out-bound call operation. We also recognize that we need to expand our dialer program by purchasing dialer technology that offers more capacity and allows us to expand, as our business needs change.

As you stated, the predictive dialer is only as efficient as the number of resources we allocate to it and we are taking steps to acquire additional resources. We are also pursuing the use of predictive dialer technology for two other compliance programs in which we prepare substitute returns for non-filers; the Automated Substitute for Returns (ASFR) and Automated 6020(b) (A6020(b)) programs.

Our comments on the recommendations in this report are as follows:

RECOMMENDATION 1

Pursue additional human capital (i.e., Full Time Equivalent (FTE)) or reallocate compliance resources to enable the operation of present and future predictive dialer systems at full capacity.

CORRECTIVE ACTION

Incoming calls still remain ACS' highest priority. In Fiscal Year (FY) 2005, we expect to purchase a predictive dialer for the SB/SE Detroit ACS call site and add

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

2

more seat licenses to the replacement predictive dialer in the W&I Buffalo ACS call site.

Until recently, the Detroit ACS call site had been deemed a non-continuing call site and, as such, did not increase staffing. Detroit ACS now has the authority to hire and expects to add 102 additional FTEs by the time the Detroit predictive dialer has been installed in FY2005. The ASFR and A6020(b) programs have already designated FTEs to work their respective predictive dialer cases.

IMPLEMENTATION DATES

Resources have been included in the FY2005 budget request, this corrective action is complete.

RESPONSIBLE OFFICIAL(S)

Director, Payment Compliance, Small Business/Self-Employed Division
Director, Filing and Payment Compliance, Wage and Investment Division

CORRECTIVE ACTION MONITORING PLAN

The Program Manager, Compliance Center Collection, will advise the Director, Payment Compliance, Small Business/Self-Employed Division of corrective action delays.

The Program Manager, ACS, will advise the Director, Filing and Payment Compliance, Wage and Investment Division of corrective action delays.

RECOMMENDATION 2

Pursue a budget solution that would allow the IRS to replace the current predictive dialer system with a state-of-the-art system having sufficient capacity, rather than settle for a smaller predictive dialer system that will not be able to effectively meet the long-term needs of the ACS. Potential budget solutions include two strategies: 1) lease a new predictive dialer system, rather than purchase it, to reduce initial outlay, or 2) develop a business case supporting a supplemental budget request from the IRS to the Congress, based on the potential cost-benefit of speeding collection of tax revenues by increasing outbound calls.

Budget Issues Are Delaying the Expanded Use of Predictive Dialer Systems for Contacting Delinquent Taxpayers

3

CORRECTIVE ACTION

In March 2003, the Modernization, Information Technology, and Security Services (MITS) organization allocated \$1.9 million from the FY 2003 budget for a piece-for-piece replacement predictive dialer for the Buffalo ACS call site. This means we are limited to purchasing a predictive dialer that has the same features and the same number of seat licenses (72), or as close to 72 seats as possible, as is currently available at the Buffalo site.

Because the technology of predictive dialers has improved since we purchased the current dialer in 1996, we will benefit from the flexibility the new software-driven dialers offer. New programming will be needed to interface the ACS system and the replacement predictive dialer. Again, we will benefit because programming changes that we previously requested, but could not be implemented due to limitations in the older system, can now be made.

The replacement dialer will not have "remoting" capabilities at this time. The estimated telecommunication costs for "remoting" from the Buffalo ACS call site to the Detroit ACS call site are a little under \$1 million per year. While leasing predictive dialer equipment is a viable solution, funding has not been included in the FY2003 and FY2004 budgets. Instead we are developing a business case for FY2004 and beyond that includes the purchase of additional seat licenses for the Buffalo ACS call site and purchase of predictive dialers for the Detroit ACS call site, ASFR, and A6020(b) programs.

IMPLEMENTATION DATES

Since resources have been included in the FY2005 budget request, the corrective action is complete.

RESPONSIBLE OFFICIAL(S)

Director, Payment Compliance, Small Business/Self-Employed Division

CORRECTIVE ACTION MONITORING PLAN

The Program Manager, Compliance Center Collection, will advise the Director, Payment Compliance, Small Business/Self-Employed Division of corrective action delays.

If you have any questions, please contact me at (202) 622-0600 or Joseph R. Brimacombe, Deputy Director, Compliance Policy, Small Business/Self-Employed Division, at (202) 283-2200.